



News Release

Media Relations Office

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Tel. 202.622.4000

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**IRS CHANGES POLICY ON WORKPAPER REQUESTS
TO FIGHT ABUSIVE TAX AVOIDANCE TRANSACTIONS**

WASHINGTON – The Internal Revenue Service today announced a policy change to help the agency shut down abusive tax avoidance transactions.

Under the new policy, the IRS may request tax accrual workpapers when it audits returns that claim a tax benefit from certain tax avoidance transactions that the IRS has identified as abusive. In all other cases, the IRS will continue to apply its current policy of requesting tax accrual workpapers only when unusual circumstances warrant such a request. Tax accrual workpapers normally are prepared by taxpayers and their independent auditors to evaluate the taxpayer's financial condition.

"This limited expansion of when the IRS will request tax accrual workpapers is critical to our ongoing effort to curb abusive tax avoidance transactions and to ensure compliance with the tax laws," said IRS Commissioner Charles O. Rossotti. "It is an important part of our mission of ensuring fairness to all taxpayers."

The new policy primarily affects returns filed on or after July 1, 2002. For those returns, whether the request for tax accrual workpapers will be routine or merely discretionary, or will be limited to the abusive transaction rather than all the workpapers, will depend on several factors, including whether the abusive transaction was disclosed. For returns filed before July 1, 2002, the IRS may request tax accrual workpapers if the taxpayer did not make the required disclosure of the abusive transactions.

Although the Supreme Court confirmed the IRS' right to summon tax accrual workpapers in 1984, the agency has not made it a standard examination technique. The IRS will continue its restraint in requesting tax accrual workpapers, but will regularly do so to combat abusive tax avoidance transactions.

"This new policy encourages taxpayers to avoid overly aggressive transactions," IRS Chief Counsel B. John Williams said. "It brings a new vitality to our self-assessment system and changes the risk calculus to make investing in overly aggressive transactions a very costly proposition. It is another example of the IRS using existing tools for effective tax administration."

More information on the policy change is in Announcement 2002-63, which will be available soon on the IRS Web site at www.irs.gov. It will also be published in Internal Revenue Bulletin 2002-27, dated July 8, 2002.

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